

IDAHO FORECAST DESCRIPTION

The Forecast Period is the First Quarter of 2001 through the Fourth Quarter of 2004

The outlook for the Idaho economy has softened compared to the previous one for the second time this year. However, the current change is much less dramatic than the April 2001 revision. The April 2001 Idaho nonfarm employment forecast for 2001 was 3,900 (0.7%) lower than its January 2001 counterpart. Similarly, Idaho real personal income projection for April 2001 was \$337 million (1.1%) lower than had been previously anticipated. In the current forecast, Idaho nonfarm employment for 2001 is actually 635 (0.1%) higher than in April 2001, but real income is down \$13 million (0.2%). Thus, there is relatively little change between the current and previous forecast for 2001.

After this year, the divergence between the two forecast becomes more noticeable. Two main reasons for this are the national economy grows slower after 2001 than was previously believed and higher inflation takes a bigger bite out of growth. In the April 2001 forecast, Idaho nonfarm employment growth was expected to hit its nadir of 1.5% in 2001 then begin to climb steadily. Specifically, Idaho nonfarm employment was projected to expand 1.7% in 2002, 2.3% in 2003, and 2.6% in 2004.

In the current forecast, Idaho nonfarm employment growth, after posting a 1.6% showing this year, bottoms out at 1.4% in 2002. It advances by 2.2% in 2003 and 2.5% in 2004. Because of this slower pace, Idaho nonfarm employment goes from being 635 (0.1%) higher in 2001 than forecast in April 2001 to nearly 2,600 (0.4%) lower by 2004. The state's goods-producing sector accounts for most of this downward revision. By 2004, it is down by 1,823 jobs compared to the April 2001 forecast. Durable manufacturing takes the hardest hit; it is lower by nearly 1,300 jobs in 2004. Nondurable manufacturing employment is off about 400 jobs that same year, while mining employment is down by nearly 200. The broad-based services-producing sector is down by just over 700 jobs in 2004.

The combination of slower employment growth, higher inflation, and lower interest rates dampens Idaho real personal income growth. Previously, this important measure of the state's economic health was anticipated to rise 3.0% in 2001, 3.7% in 2002, and 4.5% in both 2003 and 2004. In the current forecast, Idaho real personal income advances just 1.8% this year, 2.8% next year, and about 4.0% in both 2003 and 2004. As a result, Idaho nonfarm personal income is \$610 million lower (1.8%) in 2004 than was previously forecasted. Dividends, interest, and rent is the component of Idaho personal income that suffers the most from the anticipated lower interest rates. It was previously expected to average 3.9% over the forecast period. In the July 2001 forecast Idaho dividends, interest, and rent income is projected to average 2.7% growth. By 2004, it is nearly \$350 million lower than had been previously projected.

Although the outlook for the Idaho economy has weakened since the last forecast was published, a couple of important characteristics remain in place. In the previous forecast it was noted that Idaho's economy was expected to slow, but not stall or retreat. It was also pointed out that the state's economy was projected to fare better than the national economy. Both of these observations remain true in the July 2001 forecast.

SELECTED IDAHO ECONOMIC INDICATORS

Electrical and Nonelectrical Machinery:

The Gem State's largest manufacturing sector, electrical and nonelectrical machinery, continues to weather the most protracted downturn of the high-tech business cycle in recent memory. Part of this downturn is due to the collapse in real business spending, especially in its traditionally high-flying computer and communications components. The impact of this collapse has surfaced as the announcement of job cuts at several of Idaho's high-tech firms.

MCMS cut about 400 jobs this winter as a result of low sales. MCMS

supplies products to industry giants such as Cisco Systems and Nokia. SCP Global Technology makes semiconductor-manufacturing equipment. Lower sales caused it to reduce its work force by 150. Jabil Circuit is estimated to have laid off about 100 employees. This reduction comes as somewhat of a surprise because this company planned to double its manufacturing space in response to anticipated industry growth. This expansion would have added 700 new jobs over the next few years. The status of this expansion is clouded by the recent cutbacks. Micron Electronics, a manufacturer of personal computers, reduced its employment by about 515. This move reflects its decision to get out of manufacturing and focus on Internet services. The manufacturing side of the business was taken over by Gores Technology Group. AMI in Pocatello reduced its workforce by 200 this spring. Micron Technology has managed to avoid layoffs despite tough business conditions. It has, however, announced a temporary hiring freeze. The company usually hires 100 to 200 persons per month. The future employment of Hewlett-Packard's Boise site remains unclear given the company's ongoing restructuring. Sixty-five positions were lost in March 2001. The company announced in April that it was shrinking its management ranks, which could bring further reductions. Idaho's electrical and nonelectrical machinery sector employment growth should average 5.7% per year over the forecast period.

Idaho Electrical & Nonelectrical
Employment

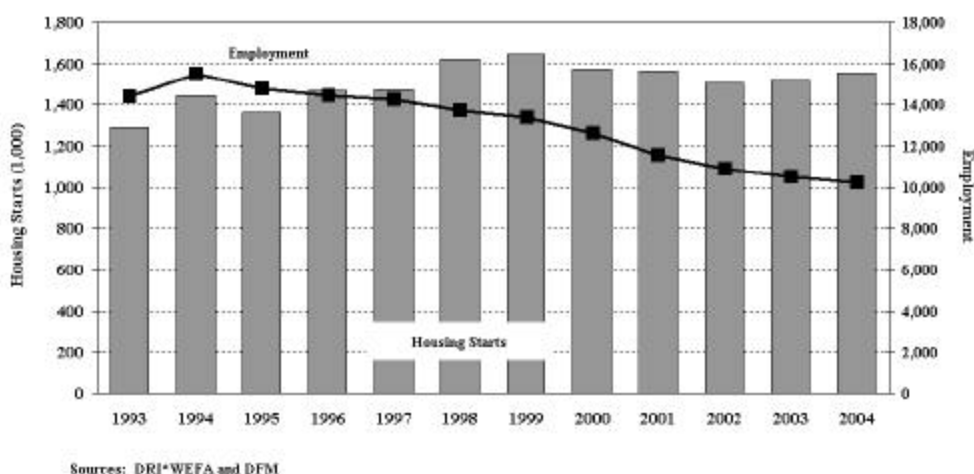


Lumber and Wood Products: Idaho lumber and wood products sector employment is expected to continue shrinking over the forecast period. This is the continuation of a region-wide downturn that began in the 1990s. The May 2001 issue of Random Length's *Yardstick* provides statistics on how widespread and severe this decline has been. The article points out that 29 to 54 sawmills and panel plants closed annually during the early 1990s. Put another way, as of this spring, there were 337 sawmills, plywood plants, veneer mills, and board mills operating in Oregon, Washington, California, Idaho, and Montana, which was just over half the 663 that were in operation ten years ago. Job losses have been high. From 1989 to April 2001, an estimated 43,581 jobs have been lost in the region. The number of Idaho lumber and wood products jobs has declined from 14,747 in 1989 to 12,627 in 2000. Interestingly, the 5.4% decline in 2000 was the largest in recent years. Unfortunately, many of the factors that contributed to this decline are still present, which suggest challenges will remain for the next few years. First, falling product prices plagued this industry through most of 2000. Soft prices forced permanent job cuts at several Idaho mills. Potlatch Corporation let go of 140 salaried workers

last summer. Crown Pacific closed its 150-employee Coeur d'Alene mill indefinitely in late July 2000. Potlatch shuttered its Jaype Mill near Pierce in August 2000, a move that cost 215 jobs. Boise Cascade Corporation shut down its Cascade sawmill and closed most operations at its Emmett plant this

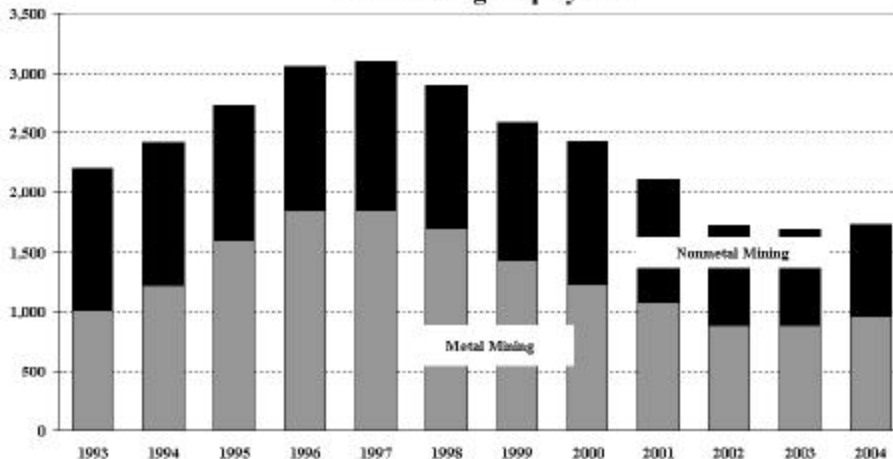
year. Eighty employees at the Cascade site will lose their jobs, while another 275 jobs will be lost in Emmett. Potlatch Corporation in Lewiston is cutting about 125 jobs from its pulp, paperboard, and tissue operations. Temporary reductions will also deflate employment numbers. In February 2001, 300 employees at Potlatch Corporation's Clearwater Lumber Mill were temporarily idled. Demand over the next two years will be limited by the anticipated decline in national housing starts. Weak demand and prices were not the only factors contributing to this industry's slump. Supply factors are also to blame. This industry is awash in supply thanks to excess capacity. One estimate shows the industry is already geared up to produce 20-25% more lumber than is being consumed in North America and Asia. Even if demand were stronger, this sector faces supply challenges. Most notably, it will be haunted by the uncertainties concerning timber supplies from federal forests. Another concern is what impact the expiration of the Softwood Lumber Agreement the U.S. has with Canada will have on supplies. Domestic producers fear Canadian mills will flood the U.S with lumber and wood products. In light of these factors, it does not appear that this sector's job picture will improve in the near future. In fact, Idaho lumber and wood products employment is expected to fall from 11,556 in 2001 to 10,266 in 2004.

Idaho Lumber & Wood Products Employment and U.S. Housing Starts



Mining and Chemicals: Hard times are expected to continue for the mining and chemicals sectors. After peaking at just under 3,100 jobs in 1997, employment in the mining sector has declined in each year since, to 2,425 in 2000. The latest blow to this industry came this winter when the Sunshine Mine closed.

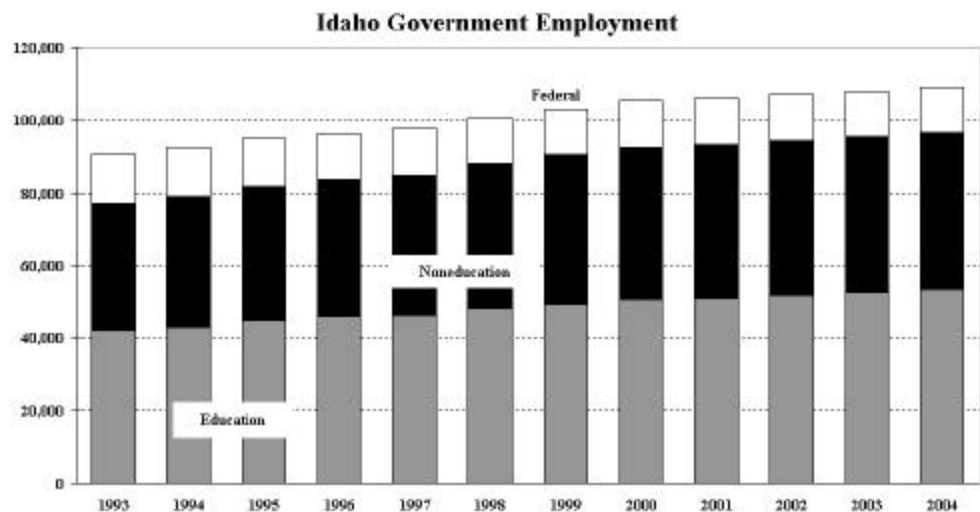
Idaho Mining Employment



While low prices for its output has bedeviled the mining industry, it was not the reason for this closure. The Asarco smelter in East Helena, Montana closed in February of this year, leaving Sunshine Mine without a place to send its silver concentrate. Over 150 jobs at the mine will eventually be lost. With Sunshine Mine closed, only Hecla Mining's Lucky Friday Mine and Coeur Silver Valley Resource's Galena Mine remain in operation in Idaho's historic Silver Valley. Mining cuts were not restricted to northern Idaho, however. Thompson Creek Mining Company in Custer County laid off 65 workers in January 2001, but remains in operation. Kerr-McGee closed its Soda Springs vanadium and phosphate plant due to the low price of vanadium. Idaho mining employment is expected to drop from 2,113 in 2001 to 1,726 in 2004. About 20 workers recently lost their jobs at the Pocatello Astaris (formerly FMC) plant. The company shut down two of its four furnaces because of high electricity prices. Unfortunately, the company has announced another round of reductions. Astaris plans to layoff approximately 110 more employees over the next year.

Federal, State, and Local Governments:

Idaho government employment growth is expected to trail total Idaho nonfarm employment growth over the next few years. The Gem State's state and local government employment has traditionally been tied to Idaho population growth. Given this relationship, it is

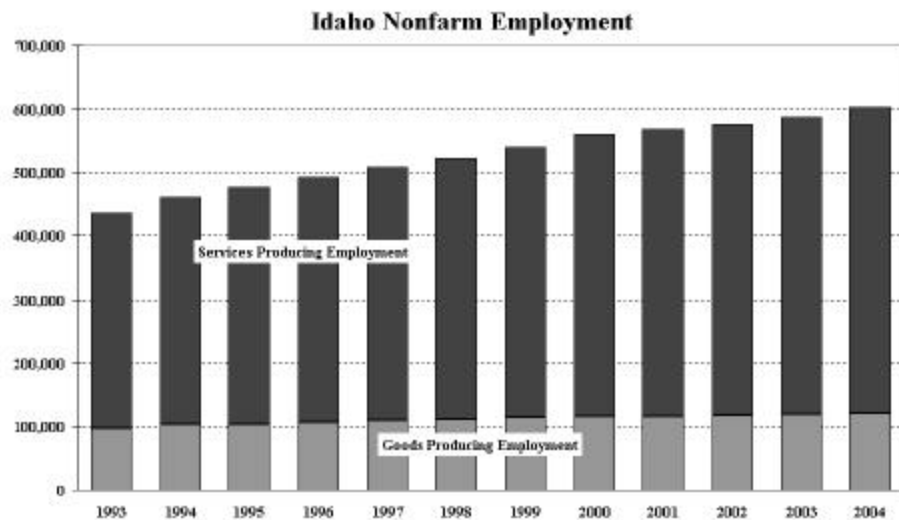


worthwhile to look at the state's population growth in further detail. Idaho population growth is the result of two major components: natural population growth and domestic migration. (International migration is not a significant contributor to overall Idaho growth.) Natural population growth is simply the number of births less the number of deaths. In Idaho, natural population growth provides steady, but uneventful, growth. On the other hand, swings in the state's population growth are caused by domestic migration. The 1990's serve as a classic example of this phenomenon. Idaho's population jumped 28.5% from 1990 to 2000, making it the 5th fastest growing population in the U.S. over that period. Of the increase of 287,219 in Idaho's population from 1990 to 2000, net migration accounted for 191,550 or two-thirds of the total. In comparison, there was actually a net out-migration in the previous decade, and the state's population expanded just 6.6% from 1980 to 1990. The state's migration boom during the 1990s was largely the result its strong economy relative to the rest of the nation. U.S. nonfarm employment shrank by nearly 1.0% from 1990 to 1992, and for California slow growth lingered even longer. Idaho nonfarm employment advanced over 8.0% over this same period. The favorable economic conditions made Idaho a magnet for migration. A surge of migration hit Idaho in the first half of the 1990s. In each of the three years from 1992 to 1994, net migration was over 20,000. This helped the state's population grow by about 3.0% in each of those years, which was nearly three times faster than the nation. The rapid rise in population strained the state's public infrastructure. In response to these pressures, Idaho state and local government employment advanced over 3.5% annually during the first half of the decade. Since then the gap between U.S. and Idaho economic

growth has narrowed. This has caused net migration into Idaho to taper off recently to about half of its mid-1990s peak. As a result, Idaho state and local government employment growth has slowed noticeably. While slower population growth has had an impact, another factor has also come into play. An Idaho law that limits local government budgets has also reduced employment growth. These two factors will limit future Idaho state and local government job growth. Idaho state and local government employment is forecast to increase 0.9% in 2001, 1.2% in 2002, 1.0% in 2003, and 1.2% in 2004. Continued efforts to corral federal government spending do not bode well for Federal government employment in Idaho. While severe cuts are unlikely, neither are huge gains. Idaho has generally been insulated from defense cutbacks. However, the Department of Defense recently proposed reducing its fleet of B1 bombers. These planes are an integral part of the 366th Wing stationed at Mountain Home Air Force Base in southern Idaho. The loss of these jets and personnel would have a negative impact. On balance, this component's employment should remain relatively flat. Specifically, the federal employment in the Gem State should be 12,991 in 2001, 12,980 in 2002, 12,977 in 2003, and 12,991 in 2004.

Services-Producing

Industries: The broadly defined services-producing sector accounts for about 80% all nonfarm jobs in Idaho. It consists of finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Even after government employment is taken



out of the services-producing mix, the remainder still accounts for over 60% of all nonfarm jobs. The trade and services categories account for almost two-thirds of this sector's total employment. These two categories have benefited from current trends. One such trend is the increasing presence of national "big-box" merchandisers into the state. For example, trade employment in 2001 was boosted by the opening or expansion of several Wal-Mart, Fred Meyer, and Home Depot stores. Other trends support services employment. Idaho has also benefited from the growth of call centers. Due to improvements in technology and the nature of their business, call centers can be located virtually anywhere, unlike other businesses where proximity to either resources or markets determine location. These call centers are involved in a wide range of activities including sales, help lines, telemarketing, customer services, and market research. Call centers also encompass a wide variety of business activities. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. For example, Boise is the home to an international shipping company's scheduling operations in spite of its landlocked location. One of the most pleasing aspects of this growth is how diverse it has been. The GTE order-processing center is in North Idaho, the Carlson Leisure Group call center is in the Treasure Valley, and Convergys Call Center is in Bannock County. Recently, Alaska Air opened a call center in Boise that will eventually employ 200. Tele-Servicing Innovations opened a call center in Burley. But growth is not just coming from new arrivals to the state. For example, Sears Boise Regional Credit Card Service Center announced that it is expanding its

payroll by about 500 employees. Business services employment has expanded thanks to the growing use of temporary employees. Some temporary employees work at manufacturing firms. Although they perform manufacturing tasks, they are technically employed by employment agencies, and are counted in the business service component. Not all the news regarding this sector has been positive. Bechtel BWXT, Idaho, which manages the Idaho National Engineering and Environmental Laboratory site near Idaho Falls, could cut up to 1,200 jobs. The ultimate number will be determined by the final U.S. Department of Energy's budget. Overall, services-producing employment is projected to increase 2.0% in 2001, 1.6% in 2002, 2.3% in 2003, and 2.6% in 2004.

Construction:

After over a decade of being one of the state's job growth leaders, the construction sector is projected to shift into lower gear over the forecast period. Construction employment grew slowly during the first two years of the current Idaho economic expansion, but took off in 1989 and stayed near the



head of the pack through most of the following decade. From 1989 to 1999, the number of construction jobs advanced by an astounding 8.2% per year. In comparison, Idaho total nonfarm employment growth averaged 4.0% per year over the same period. The growth in construction employment primarily resulted from the booming housing market caused by the state's rising population. During the 1990s, Idaho's population rose up to three times as fast as the national population. Not surprisingly, housing demand surged from about 3,300 units in 1988 to nearly 12,800 units in 1994. The construction sector was in "catch-up" mode during the early 1990s because of the thin housing stock coming from the 1980s and the unprecedented new demand for housing. Fortunately, Idaho never developed a serious inventory overhang. Housing starts did settle down to about 9,400 units in 1995, but strong nonresidential construction kept this sector healthy. Since then, total housing starts have hovered in the 9,000- to 11,000-unit range. While this is below 1994's peak, it is about three times higher than in 1988. Idaho housing starts are expected to be 10,856 units in 2001, 10,130 units in 2002, 9,907 in 2003, and 10,249 units in 2004. Idaho construction employment is forecast to slightly decline from 36,624 in 2001 to 35,584 in 2004.